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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
JUNE 28, 1977

1. OECD MINISTERIAL (LIMITED OFFICIAL USE)

OECD MINISTERIAL MEETING FOCUSED ATTENTION ON MEDIUM-TERM GROWTH STRATEGY. THE MEETING RATIFIED THE PROPOSAL THAT MEMBER COUNTRIES SUBMIT THEIR ANNUAL GROWTH TARGETS AND THEIR MEANS OF ACHIEVING THEM TO BE MONITORED BY THE ECONOMIC POLICY COMMITTEE FOR OECD WIDE CONSISTENCY AND COORDINATION. THERE WAS STRONG PRESSURE BY THE UK AND SOME OF THE SMALLER OECD MEMBERS TO ADOPT AN OECD WIDE GROWTH TARGET AND THE COMMUNIQUE ACCEPTED THAT "AN OVERALL GROWTH RATE OF OECD GNP OF AROUND 5 PERCENT IN 1978 WOULD

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AT THIS POINT SEEM DESIRABLE". AS WE REPORTED LAST WEEK, SECRETARY BLUMENTHAL STRESSED THE IMPORTANCE OF GERMANY AND JAPAN ACHIEVING THEIR GROWTH TARGETS AND THAT THEY PLUS THE NETHERLANDS AND SWITZERLAND MOVE TOWARD CURRENT ACCOUNT DEFICITS. THE JAPANESE SIMPLY STATED THAT RECENT STIMULATORY ACTIONS WOULD PUT THE ECONOMY IN A GROWTH PATH CONSISTENT WITH THE SUMMIT PLEDGE AND THAT GROWTH

AT THIS RATE WOULD BOOST WORLD TRADE.

THE TRADE PLEDGE WAS RENEWED BUT NEW ZEALAND DID SO "WITH CONSIDERABLE MISGIVINGS" AND JOINED A COUPLE OF OTHER COUNTRIES IN LINKING THEIR AGREEMENT TO ACTION BY STRONG COUNTRIES TO ASSURE ADEQUATE GROWTH OF DOMESTIC DEMAND.

DESPITE IMF MANAGING DIRECTOR WITTEVEEN'S REPORT THAT A DOLLARS 8-10 BILLION SPECIAL IMF FACILITY WILL MOST LIKELY BE OBTAINED, THEIR WAS STRONG PRESSURE TO PUT THE OECD FINANCIAL SUPPORT FUND (FSF) INTO PLACE TOO. IN FACT THERE WAS SOME TALK IN THE CORRIDORS SUGGESTING THE ESTABLISHMENT OF THE FSF WITHOUT THE US BUT WITH SOME PARALLEL ACTION TO WHICH THE US WOULD COMMIT ITSELF. THE US REPRESENTATIVES SIMPLY STATED THAT THEY WOULD REVIEW ALL OPTIONS, INCLUDING THE FSF, IF THE WITTEVEEN PROPOSAL WOULD FAIL OR WOULD PROVE INADEQUATE.

INFLATION AND EMPLOYMENT WERE DISCUSSED AND THE OECD WAS CALLED UPON TO ORGANIZE A CONFERENCE ON YOUTH UNEMPLOYMENT.

ON NORTH-SOUTH ISSUES THE MINISTERS ISSUED A DECLARATION WHICH IS MORE SUBSTANTIVE THEN MOST OF SUCH DOCUMENTS. IT ENDORSES THE RESULTS OF THE CIEC, PLEDGES TO CONTINUE

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THE ONGOING DIALOGUE IN VARIOUS INTERNATIONAL FORUMS, STRESSES THE NEED FOR MEETING BASIC NEEDS OF INDIVIDUALS AND PLEDGES TO INCREASE EFFECTIVELY AND SUBSTANTIALLY OFFICIAL DEVELOPMENT ASSISTANCE. THERE WAS ALSO AGREEMENT ON CONTINUED NEED FOR COORDINATION AMONG OECD COUNTRIES ON NORTH-SOUTH ISSUES BUT THE MECHANICS OF EFFECTIVE COORDINATION HAVE NOT YET BEEN RESOLVED.

2. FOREIGN ASSISTANCE LEGISLATION (LIMITED OFFICIAL USE)

ADMINISTRATION OBJECTIVES IN THE FOREIGN ASSISTANCE FIELD SUFFERED A SETBACK LAST WEEK WHEN THE ACTION ON THE HOUSE FLOOR ON THE FOREIGN ASSISTANCE APPROPRIATION ACT INCLUDED THE FOLLOWING: 1) A 5 PERCENT ACROSS THE BOARD CUT; 2) AN AMENDMENT WHICH WOULD PROHIBIT THE USE OF APPROPRIATED FUNDS DIRECTLY OR INDIRECTLY (I.E. THROUGH THE IFIS) FOR CUBA, THE INDOCHINA COUNTRIES AND SOME AFRICAN COUNTRIES; AND 3) WOULD PROHIBIT THE USE OF THE FUNDS MADE AVAILABLE TO IFIS FOR THE PURPOSE OF ESTABLISHING OR EXPANDING PRODUCTION OF SUGAR, PALM OIL OR CITRUS PRODUCTS. WE ALSO HAVE PROBLEMS WITH THE SENATE AUTHORIZATION BILL FOR THE IFIS, I.E. PROHIBITING LOANS

TO INDOCHINA COUNTRIES (DOLE AMENDMENT); HUMAN RIGHTS,
PALM OIL AND LIMITATION TO 25 PERCENT OF OUR IFI SHARE.

REGARDING THESE PROBLEMS WITH THE IFI AUTHORIZATION BILL,
BERGSTEN IS DRAFTING A LETTER (TO BE CLEARED BY STATE)
TO THE CONFERENCEES. ON THE MORE DIFFICULT PROBLEM OF THE
APPROPRIATION BILL IT IS PLANNED TO HAVE A VANCE AND/OR
BLUMENTHAL LETTER TO SENATOR INOUYE TACKLING THE PROBLEM
OF OUR PARTICIPATION IN THE IFIS HEAD ON.

3. ASEAN (CONFIDENTIAL)

A) JAPANESE PRIME MINISTER FUKUDA'S PARTICIPATION IN
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ACCORDING TO A JAPANESE MOFA SOURCE, THE MAIN ASSISTANCE
THAT FUKUDA WILL OFFER AT THE AUGUST ASEAN SUMMIT WILL
BE "SUBSTANTIAL" AID TO A GROUP OF INDUSTRIAL PROJECTS,
INCLUDING FEASIBILITY STUDIES AND LOANS TO VIABLE PROJECTS.
IN PREPARATION, JAPANESE DIPLOMATS MET INFORMALLY IN
MANILA JUNE 18 WITH THE ASEAN COMMITTEE ON INDUSTRY.
LITTLE WAS ACCOMPLISHED, HOWEVER, TO CLOSE THE GAP
BETWEEN ASEAN EXPECTATIONS AND WHAT JAPAN IS PREPARED TO
OFFER. ASEAN REPRESENTATIVES REQUESTED ONE BILLION
DOLLARS ON HIGHLY CONCESSIONAL TERMS, WHILE THE JAPANESE
HELD THAT NO AMOUNT OF FUNDS COULD BE COMMITTED EXCEPT
WITH RESPECT TO SPECIFIC FEASIBLE PROJECTS.

B) TIES WITH EC

THE EC FOREIGN MINISTERS COUNCIL AGREED ON JUNE 21 THAT
THE EC SHOULD PROPOSE A MEETING BETWEEN THE FIVE ASEAN
AMBASSADORS IN BRUSSELS AND MEMBERS OF THE EC COMMITTEE
OF PERMANENT REPRESENTATIVES AND THE COMMISSION TO
DISCUSS STRENGTHENING EC-ASEAN TIES. THE DECISION IS IN
RESPONSE TO ASEAN DISSATISFACTION WITH THE CURRENT JOINT
STUDY GROUP WITH THE COMMISSION AND ITS DESIRE TO BROADEN
EC CONTACTS TO INCLUDE THE MEMBER STATES. THE COUNCIL
DECISION CLEARS THE WAY FOR AN EXPANDED DIALOGUE, IF
ASEAN NATIONS AGREE.

4. ASIA SOCIETY AND ASEAN (LIMITED OFFICIAL USE)

WE HAD AN EXCHANGE OF NOTES BETWEEN THE PHILIPPINE
COORDINATOR OF US-ASEAN ECONOMIC TALKS AND EMBASSY MANILA.
THE PHILIPPINE COORDINATOR WANTED THE ASIA SOCIETY TO
EXTEND ITS INVITATION TO ASEAN COUNTRY OFFICIALS TO
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PARTICIPATE IN A SEMINAR ON ASEAN THROUGH THE STATE DEPARTMENT AND FOR THE LATTER, IF IT WISHES TO DO SO, TO FORMALLY PRESENT THIS OFFER IN THE FORTHCOMING US-ASEAN CONSULTATIONS. WE TOLD THE FILIPPINO LADY IN OUR NOTE THAT THE ASIA SOCIETY IS A PRIVATE FOUNDATION; IT CAN

INVITE WHOMEVER IT PLEASES; THAT AN INCREASING NUMBER OF PRIVATE ORGANIZATIONS IN THE US ARE SHOWING INTEREST IN ASEAN; THE INVITEES CAN ACCEPT OR DECLINE; THAT THE SEMINAR HAS NOTHING TO DO WITH THE US-ASEAN CONSULTATIONS; AND THAT THE ASIA SOCIETY INVITATION NEED NOT OCCUPY HER ATTENTION. THE FILIPPINO NOTE SHOWS A CURIOUS LACK OF UNDERSTANDING OF HOW OUR SOCIETY WORKS AND HOW THEY COULD BEST PROMOTE THEIR OWN INTERESTS.

5. WORLD FOOD COUNCIL MEETING (UNCLASSIFIED)

THE WORLD FOOD COUNCIL MEETING IN MANILA WENT REMARKABLY WELL. WE WERE SUCCESSFUL IN STEARING THE MEETING AWAY FROM POLITICAL AND ECONOMIC ISSUES AND TOWARD THE RAISING OF NUTRITION LEVELS. THE MOST SIGNIFICANT RESULT FROM EA'S POINT OF VIEW IS SECRETARY BERGLAND'S ENDORSEMENT OF THE PHILIPPINE SUGGESTION FOR DISCUSSIONS WHICH MAY LEAD TO AN INTERNATIONAL RICE AGREEMENT. EXACTLY WHEN AND WHERE SUCH DISCUSSIONS WOULD TAKE PLACE IS NOT YET CLEAR.

6. UNCTAD SECRETARY GENERAL COMMENTS ON CIEC AND COMMODITY PROBLEMS (LIMITED OFFICIAL USE)

UNCTAD SECRETARY GENERAL COREA COMMENTED TO AID ADMINISTRATOR GILLIGAN THAT FROM UNCTAD'S POINT OF VIEW THE OUTCOME OF CIEC WAS NOT TOO BAD, PARTICULARLY SINCE THE DECISION ON THE COMMON FUND (CF) WENT SUBSTANTIALLY BEYOND LANGUAGE AGREED UPON AT UNCTAD IV. HOWEVER IT WILL TAKE SERIOUS EFFORTS TO BRIDGE THE WIDE DIVERGENCE

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OF VIEWS REGARDING THE CF. COREA ALSO EXPRESSED CONSIDERABLE DISCOURAGEMENT OVER THE LACK OF PROGRESS IN REACHING COMMODITY AGREEMENTS AND SUGGESTED THAT, AS A DEVICE TO BREAK THE IMPASSE, THAT PRODUCERS AND CONSUMERS AIM IN THE FIRST INSTANCE ONLY FOR AGREEMENT ON A PRICE RANGE AND LEAVE THE NEGOTIATIONS OF OTHER PROVISIONS UNTIL A LATER STAGE. NEEDLESS TO SAY, THIS DOES NOT

SEEM LIKE A FEASIBLE ALTERNATIVE TO THE ADMITTEDLY DIFFICULT PROCESS OF COMMODITY NEGOTIATIONS.

7. ILLICIT PAYMENTS AGREEMENT CONTINUES TO RECEIVE STRONG ADMINISTRATION SUPPORT (CONFIDENTIAL)

WE ARE CONTINUING TO ASK US MISSIONS TO COUNTRIES SCHEDULED TO PARTICIPATE AT GENEVA ECOSOC MEETING, JULY 6-AUGUST 5, TO PUSH THEIR HOST GOVERNMENTS HARD ON CORRUPT PRACTICES. THE US OBJECTIVE REMAINS THAT OF HAVING ECOSOC CONVENE A DIPLOMATIC CONFERENCE IN 1978 TO NEGOTIATE AN AGREEMENT ON ILLICIT PAYMENTS.

8. PACIFIC FORUM LINE (UNCLASSIFIED)

REPRESENTATIVES OF SOUTH PACIFIC NATIONS SIGNED A MEMORANDUM OF UNDERSTANDING IN SUVA JUNE 16 THAT ESTABLISHES THE PACIFIC FORUM LINE AND, WITH LUCK, WILL PERMIT OPERATIONS TO COMMENCE THIS YEAR. SEVERAL MEMBER NATIONS CONSIDER THE LINE, A RESULT OF SEVEN YEARS' EFFORT, ESSENTIAL TO FILL A SERIOUS GAP IN SHIPPING AVAILABLE TO THEM. SIGNATORIES ARE NEW ZEALAND, PAPUA NEW GUINEA, THE COOKS, GILBERTS, SAMOA, TONGA, NAURU, AND FIJI. THE SOLOMONS AND PERHAPS NIUE MAY JOIN SHORTLY.

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